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Good morning, Mr. Chairmen and Members of the Committee. My office has been working with your Committees over the past several years and I appreciate this opportunity to discuss some of that work. Recently, we have focused much of our audit work in two (2) critical areas that I will discuss today - computer security and the benefit determination process which results in PBGC issuing initial determination letters.

Computer Security

Information technology (IT) is critical to operating PBGC and providing good customer service to participants. As PBGC's dependency on information technology expanded, the security of PBGC data and resources became a key concern of the OIG.

During the past five years, we have, along with an independent public accounting firm, PricewaterhouseCoopers, performed a wide range of reviews that focused on control and security issues over PBGC information technology resources. These reviews have clearly pointed out that PBGC lacked a comprehensive IT security program. We found weaknesses in overall policies and procedures, network security, computer operating systems security, and oversight of security controls in systems developed by contractors.

If there is no effective and proactive IT security management program, PBGC is exposed to risks such as:

- denial of critical services to plan participants;
- the compromise of private participant information;
- loss of trust fund resources; and
- unauthorized access by individuals who may modify, destroy, or disclose sensitive information;

To determine how vulnerable PBGC was to these risks, we conducted tests of PBGC's security environment. This is referred to as "network penetration testing." We used a variety of common computer hacker tools and techniques to conduct the tests.

We were glad to discover and report to PBGC that we were not able to penetrate PBGC's information systems using the Internet. However, we were able to access PBGC systems through both dial-in from remote locations and unauthorized access inside PBGC. This test revealed flaws in the security over computer resources and in employees' awareness of their security responsibilities. We also found numerous security weaknesses in the technical configuration of the Corporation's client-server operating platforms. These configurations created an exposure that could allow unauthorized users to gain access to PBGC's mission critical systems.

For example, during our testing, we obtained the highest security privileges and were able to:

- Create, delete, and modify data, including financial and plan data;
- Access, read, and modify information on plan participants; and
- Deny service on critical PBGC network systems.

We were able to achieve this level of access without being detected or reported. For example, we were

able to dial into the PBGC network without using a password and connect to the network as a system administrator without being detected. These actual tests demonstrated that PBGC did not have an effective program that defines, implements, and enforces security strategy. Without an effective security program, PBGC systems are at risk to malicious external attacks, as well as insidious insider mischief and fraud.

In addition, security standards for new PBGC systems need to be defined early in the development process to ensure that there is appropriate security before the system is placed in production. Further, when a contractor develops a system for PBGC, security requirements must be defined early by PBGC as part of the system design. Then, PBGC needs to oversee the systems development process to ensure that contractors are complying with the approved system design.

PBGC management has been responsive to our concerns and has developed action plans to correct the weaknesses identified. We are currently reviewing the progress made in implementing corrective actions. Once PBGC completes its corrective action plan, we will conduct additional security tests and report the results to your Committees.

Benefit Determination Process

In Fiscal Year 1997, Chairman Grassley, you asked my office to address certain questions regarding initial benefit determinations, or IDLs. Specifically, you asked that we review the efficiency and effectiveness of PBGC's benefit determination process. You were also interested in the length of time it takes PBGC to issue an IDL and the related impact delays have on participants. Finally, you asked certain questions about appeals of IDLs that participants filed with PBGC.

We looked at the efficiency and effectiveness of the benefit determination process and identified key areas for improvement. Our report included findings that PBGC:

- could not attest that IDLs have been issued to all participants;
- could not accurately account for the number of IDLs yet to be issued;
- could collect participant information earlier than when it becomes trustee;
- did not have a timeliness performance measure for IDL processing; and
- had developed core curriculum training for the benefit determination process, but employees were not required to attend.

For each of the areas, we recommended corrective actions. PBGC reports that they have completed some of the recommended actions, and are working on others. We are reviewing those actions.

We also completed two reviews, an initial and a follow-up, on the length of time it has taken PBGC to issue IDLs. We compared the IDL issuance date against the date PBGC became trustee of the plan. Our review revealed that PBGC continued to issue approximately one-half of the IDLs more than seven years after PBGC became trustee. (In FY 1998 the percentage was 51.9%, and in FY 1999, it was 49.1%.)

We also compared the IDL date to the date PBGC completed its determination of the benefit amounts for the plans' participants. We found improvement. In our first report, we noted that only 39% of the IDLs were issued within one year of PBGC completing its valuation. Our follow-up report noted that approximately 86% of IDLs were issued within a comparable one-year period.

In these two reports, we identified problems in the IDL data maintained in the Participant Record

Information System Management, referred to as PRISM. PBGC uses information from PRISM for a variety of operational purposes, for example, to pay benefits and to answer participants' questions about their benefit calculations. Specifically, we found that:

- PRISM contained duplicate, incomplete and erroneous data;
- the number of IDLs that PBGC reported as actually issued did not match the number of IDLs recorded in the PRISM database; and
- the number of IDLs that PBGC reported as issued was not the number it used to compute the average length of time to issue IDLs.
- These issues call into question the reliability of data in PRISM that PBGC uses to report its operational performance.

Our evaluation of whether participants and beneficiaries are impacted by the delay in IDL issuance revealed that there is a gap between PBGC management's perception of the impact and the perception of those who are waiting for their IDLs. We asked PBGC management: What is the affect on plan participants of PBGC's delay in issuing IDLs? PBGC management's answer focused on the payment of estimated benefits - - it was suggested that a delayed IDL has very little impact upon participants because the participants are receiving their estimated monthly checks.

From PBGC's own information sources, we evaluated what participants and beneficiaries said about the impact of delayed IDLs. Some participants stated that they were financially or emotionally hurt by the delay in receiving IDLs. Even though they are receiving an estimated monthly benefit, participants reported other economic hardships such as the possibility of having to repay PBGC overpaid benefit amounts, and the inability to accurately plan their financial future.

Finally, as stated in our report on the appeals process, we found that PBGC's assertions regarding appeals of IDLs were fairly presented. Notably, in FY 1997, approximately one-half of appeals decisions were favorable to appellants (461 out of 927).

In conclusion, Mr. Chairmen, over the years, my office has issued multiple reports commenting on weaknesses related to PBGC's benefit determination process. The common theme in these reports is that PBGC has systemic weaknesses in controlling participant information. This information is used to determine individual benefits and value PBGC financial statement liabilities. Further, the benefit determination process is dependent upon obtaining essential plan and participant information. PBGC needs to gather participant information earlier than when it becomes trustee to avoid some of the difficult and time-consuming reconstruction of plan information. More timely and reliable information would enable PBGC to better perform the benefit determination process and issue IDLs in a timely manner.

I thank you for this opportunity to discuss our audit work and would be glad to answer your questions.